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INFO RUCNRAQ/IRAQ COLLECTIVE

UNCLAS SECTION 01 OF 02 BAGHDAD 001633

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SENSITIVE

E.O. 12958: N/A

TAGS: [EFIN](#) [ECON](#) [PGOV](#) [EAIR](#) [ETRD](#) [IZ](#)

SUBJECT: Finance Minister Says Treasury Bills for GE Payment and IMF Loan Negotiations Are on Track

REF: Baghdad 976

**¶1.** (SBU) SUMMARY: At a June 17 meeting with EMIN and Brigadier General Stephen Lanza, Minister of Finance Bayan Jabr said the GOI and International Monetary Fund (IMF) had agreed to conduct technical negotiations on an 18 month loan program of around \$5.5 billion. He also believed that the issuance of treasury bills could be completed within a week to finance General Electric payments, but only if the Council of Representatives (CoR) could provide written confirmation to the Ministry of Finance that the government can issue Treasury bills without further approval. Jabr was less certain on whether the Boeing payments would be made. He also indicated a supplementary budget, paid for by the sale of mobile phone licenses, could aid provinces with low 2008 budget execution rates. EMIN also urged Jabr to arrange for the finance ministry to sign a grant in aid agreement that will allow it to take ownership of equipment for USAID's Iraq Financial Management Information System (IFMIS). End summary.

#### IMF Stand-By Agreement Discussions

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**¶2.** (U) At a June 17 meeting with EMIN and General Lanza, Minister Jabr said the GoI and the IMF recently agreed in Amman to an 18 month loan program of around \$5.5 billion. Jabr stated that the IMF had agreed to conduct technical meetings in June and a policy meeting in July in Washington, DC, followed in October by the conclusion of the Stand By Agreement (SBA) in Istanbul, two days before the IMF annual meeting there. (Note: We believe technical negotiations were planned to take place in July in Beirut.) According to Jabr, Japan has promised a \$3.5 billion loan at 4 percent, repayable over 40 years, after approval of the SBA by the IMF Board. Jabr stated that he had consulted with his legal adviser on whether Council of Representatives (CoR) approval of the SBA would be necessary, but they were not certain about this issue yet.

#### Treasury Bills for General Electric Payments

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**¶3.** (U) On June 15, the CoR ratified a resolution for issuing treasury bonds totaling \$2.4 billion to finance payments to General Electric and Siemens, but the CoR insisted on using the term "bills" or "drafts" instead of "bonds." Asked by EMIN about the distinction, Minister Jabr stated that there was no substantive difference, but that not calling them "treasury bonds" avoided the need for CoR approval. He asserted that the treasury bill issuance could be completed in a few days to a week, but that it could occur only if the CoR could provide written confirmation to the Ministry of Finance that the government can issue treasury bills without further approval. He requested U.S. assistance in urging CoR Speaker Ayad Al-Samarraie to respond quickly with such a letter, emphasizing the need to "strike while the iron is hot." (Comment: Charge passed a letter to Al-Samarraie on June 26 urging action. Samarraie said this was a reasonable approach and indicated he would send a letter to Bayan Jabr confirming COR approval for the issuance of t-bills. Embassy will follow-up with Samarraie's staff in the next day or two. End comment.)

Boeing Progress Payment

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¶ 14. (U) Asked whether the GoI would meet the first scheduled progress payment of \$1.777 million under its contract with Boeing for the acquisition of 737 and 787 aircraft, Jabr responded that Boeing had changed the delivery timetable, giving the GoI the right to cancel the contract or continue it by paying the first progress payment. (Note: there has been no change in the delivery dates for the Boeing Aircraft. End note). He emphasized that his only role in this matter was to provide payments, and that he had no role in any other decisions regarding the aircraft acquisition contract. He also pointed out that the ongoing corruption investigation by the CoR was scrutinizing Bombardier and Boeing, and that it may affect GoI willingness to continue with the Boeing deal. He emphasized that "we have no money" to even make the payments because of low oil production and prices.

2009 Supplementary Budget

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¶ 15. (U) Asked about the 2009 supplementary budget, Jabr stated that it would be used for the provinces such as Diyala and Ninewa that had extremely low budget execution rates in 2008 because of ongoing fighting. When these provinces could not execute their budgets in 2008, the funds reverted to the central government, and "it would not be justice" to miss out on the funding that other provinces enjoyed that year. The funding would also be important to maintain security in Mosul. Funds for the supplementary budget would come from sales of mobile phone licenses. (Note: The Council of Ministers has already directed mobile phone companies pay \$1.875 billion cash for the licenses.)

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¶ 16. (U) When EMIN asked about the \$70 billion infrastructure program approved by the CoR, Minister Jabr clarified that the CoR had only voted on \$3 billion - \$2.4 billion for payments to General Electric, and \$600 million for other projects. (Note: The Iraqi government spokesman has announced that the Iraqi government has submitted a request to the COR to approve a plan to invest \$70 billion to rebuild Iraqi infrastructure and services. We will seek further clarification on this proposal.)

IFMIS

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¶ 17. (U) EMIN gave Jabr the Grant in Aid agreement with USAID and urged him to designate the Deputy Minister or Special Advisor to sign it before June 21 in order to ensure handover of IFMIS equipment ownership and implementation of programs before the end of the year. Jabr said that Dr. Aziz would handle the matter. (Note: Dr. Aziz is traveling out of Iraq until at least June 20 and has not been responding to attempts to contact him, making it unlikely that he will take any action with respect to the Grant in Aid agreement before the June 21 deadline.)

Comment:

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¶ 19. (SBU) Although the meeting was cut short by the arrival of a former Iraqi royal family member, the discussion highlighted a lack of clear coordination between the CoR and the MOF on the treasury bills, further magnified by seeking U.S. embassy intermediation in the matter. This lack of coordination and focus among GOI agencies seems to have also affected Boeing contract payments and an agreement on the IFMIS program. While it is common practice for GOI officials to defer decision-making, we hope that our continued advocacy will push Jabr to take action.

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